

SECTION 3: HONG KONG

“The Commission shall investigate and report on—

“REGIONAL ECONOMIC AND SECURITY IMPACTS—The triangular economic and security relationship among the United States, [Taiwan], and the People’s Republic of China (including the military modernization and force deployments of the People’s Republic of China aimed at [Taiwan]), the national budget of the People’s Republic of China, and the fiscal strength of the People’s Republic of China in relation to internal instability in the People’s Republic of China and the likelihood of the externalization of problems arising from such internal instability.

“FREEDOM OF EXPRESSION—The implications of restrictions on speech and access to information in the People’s Republic of China for its relations with the United States in the areas of economic and security policy.”

A delegation of Commission members visited Hong Kong in May 2007 and met with representatives of the Hong Kong government, Legislative Council members, business leaders, representatives of Hong Kong political parties, and democracy activists. In some cases, this Commission report will not attribute statements to individuals to protect their anonymity.

1997–2007: Hong Kong Ten Years after the Handover

On July 1, 1997, the government of the United Kingdom returned control of Hong Kong to the People’s Republic of China (PRC), and the PRC established the Hong Kong Special Administrative Region (HKSAR) as a subordinate unit. This inaugurated an experiment with what has been called a “one country, two systems” arrangement, where HKSAR is permitted to operate for a period of fifty years under a different set of laws, rules, procedures, rights, and responsibilities (an amalgamation of China’s system, the preceding system in Hong Kong under British colonial rule, and some new features) than applies in the PRC.

As the foundation of this new system, Hong Kong’s Basic Law, approved by the PRC’s National People’s Congress in 1994, maintains Hong Kong’s market-oriented economy while at the same time is supposed to move the polity toward a system of universal suffrage (i.e. direct elections in which all citizens have a vote).

There is a substantial difference of opinion among Hong Kong citizens concerning the extent to which the HKSAR government and the PRC government have honored their commitments under

the Basic Law, and the extent to which the “one country, two systems” experiment has been successful. Democracy supporters believe that inadequate and insufficiently rapid progress has been made toward the protection of human rights, universal suffrage, and expansion of other individual political rights, and that the government has been inattentive to the needs of Hong Kong’s citizenry. Individuals considered “pro-Beijing” argue that progress has been substantial and sufficient; that “one country, two systems” has achieved political and, importantly, economic stability; and that further movement toward universal suffrage should only be made taking into account Hong Kong’s special status and with sufficient preparation.

Wu Bangguo, Chairman of the National People’s Congress noted in a speech commemorating the anniversary of the Basic Law that:

Our country is a single-system state, and the high degree of autonomy enjoyed by the Hong Kong SAR is not intrinsic to Hong Kong but was granted by the Central Government. The Central Government may grant those powers that are not clearly stipulated in accordance with the provisions of Article 20 of the Basic Law, and there is no issue of so-called “residual power.” Seen in this light, the Basic Law is a law of authorization. Fully and accurately understanding this point is of the utmost importance in guaranteeing the implementation of the guiding principles of “one country, two systems” and the Basic Law and in correctly handling the relations between the central authorities and the Hong Kong SAR.¹⁰⁴

President Hu Jintao reiterated this principle in his speech commemorating the tenth anniversary of the handover of Hong Kong on July 1, 2007. He stated, “‘One country’ means that we must uphold the power vested with the Central Government and China’s sovereignty, unity, and security. ‘Two systems’ means that we should ensure the high degree of autonomy of the Hong Kong SAR and support the chief executive and SAR Government in exercising government power as mandated by law.”¹⁰⁵

The U.S. Department of State voluntarily submitted a Hong Kong Policy Act Report in June 2007,¹⁰⁶ noting that the discharge of the “one country, two systems” theory has been largely successful, and that “the central government in Beijing has generally respected its commitment . . . to maintain a ‘high degree of autonomy’ for Hong Kong and to preserve and respect the integrity of [Hong Kong’s] distinct economic, legal, and social systems.”¹⁰⁷ However, previous Reports have questioned the strength of Hong Kong’s political autonomy. For example, in 2005, the Report noted that Beijing’s decision to interpret the Basic Law and rule out universal suffrage in 2007 “severely tested” Hong Kong’s political autonomy under this system.¹⁰⁸ In general, past reports acknowledge that Hong Kong’s economic autonomy has remained intact and robust.¹⁰⁹

Chief Executive Selection

The process for selecting Hong Kong's governmental leadership—the Chief Executive and members of the Legislative Council—has been determined by two Annexes to the Basic Law. The Chief Executive is selected by an Election Committee composed of 800 members including, among others, representatives from industry, labor, and religious groups, members of the Legislative Council, and Hong Kong deputies to the National People's Congress. The composition of the Committee is heavily weighted toward business and industry representatives, many of whom rely on strong business ties with the mainland. Each of these constituencies selects its own Committee members.

Table 4.1 Composition of the Hong Kong Election Committee (800 Members) ¹¹⁰

The Functional Constituencies	550 Members
Agriculture and Fisheries	40
Insurance	12
Transport	12
Education	20
Legal	20
Accountancy	20
Medical	20
Health Services	20
Engineering	20
Architectural, Surveying, and Planning	20
Labour	40
Social Welfare	40
Real Estate & Construction	12
Tourism	12
Commercial (First)	12
Commercial (Second)	12
Industrial (First)	12
Industrial (Second)	12
Finance	12
Financial Services	12
Sports, Performing Arts, Culture, and Publication	40
Imports and Exports	12
Textiles and Garments	12
Wholesale and Retail	12
Information Technology	20
Catering	11
Heung Yee Kuk ¹¹¹	21

Table 4.1 Composition of the Hong Kong Election Committee (800 Members) ¹¹⁰—Continued

The Functional Constituencies—Continued	550 Members
The District Councils	42 (21 from Kowloon and HK, 21 from New Territories)
Special Constituencies	114 Members
Higher Education	20
Hotels	11
Chinese Medicine	20
Chinese People's Political Consultative Conference	41
Employers' Federation of Hong Kong	11
Hong Kong Chinese Enterprises Association	11
Government Bodies	96 Members (all ex officio)
National People's Congress	36
Legislative Council	60
Religious Organizations	40 Members
Catholic Diocese of Hong Kong	7
Chinese Muslim Cultural and Fraternal Association	6
Hong Kong Christian Council	7
Hong Kong Taoist Association	6
The Confucian Academy	7
The Hong Kong Buddhist Association	7

Candidates for Chief Executive are nominated by Committee members and must secure support from a minimum of 100 members in order to stand for election.¹¹² If only one candidate is nominated through the nomination process, that candidate receives an official appointment from the PRC government. If multiple candidates are nominated, an election is conducted by the Election Committee, and the winner of that vote receives appointment from the central government. Given the Election Committee's substantial weighting toward business interests that presumably will seek to preserve their own base of power under the current electoral system, it is likely the Committee members will continue to elect the candidate they believe will best serve their interests—Beijing's preferred candidate.

The selection of the Chief Executive did not require elections between 1996 and 2007 because, during this period, only one candidate reached the threshold of 100 nominations each time the Chief Executive was to be selected. However, the March 2007 selection of the Chief Executive was contested. During the December 2006 nomination period, Alan Leong Kah Kit, former chairman of the Hong Kong Bar Association, received 132 nominations from members of the Election Committee, and Donald Tsang, the incum-

bent, received 641 nominations. Having received support for nomination from at least the minimum number of Committee members, both sought support within the Election Committee. This was extended into a campaign for public support.¹¹³

During the campaign, incumbent Chief Executive Tsang agreed to participate in two debates with Mr. Leong, who represented the pro-democracy parties in Hong Kong. The debates occurred on March 1 and March 15, 2007, and reflected the importance of being able to articulate policy positions and respond to questions.¹¹⁴ According to polls conducted by the University of Hong Kong, Mr. Leong's public support increased dramatically after the first debate.¹¹⁵ These debates were watched by over two million people in Hong Kong and, notably, the broadcasts were accessible to viewers in Guangdong Province as well.

On March 25, Mr. Tsang won the election with 649 votes out of 772 cast; Mr. Leong received 123.¹¹⁶ Although Mr. Leong did not win the election, the support he garnered helped to establish a significant precedent and the expectation that future elections for Chief Executive will have multiple candidates, articulated policy platforms, and open debates. Following the election, Mr. Leong stated, "In the past few months we have seen a fundamental change of political culture. There is no turning back from here. Hong Kong people's determination to achieve universal suffrage in 2012 [when the next election for Chief Executive is scheduled to occur] remains as strong as ever."¹¹⁷

An interesting development since the election is that Chief Executive Tsang has tied his policy initiatives to promises made during the campaign period. He explicitly acknowledged this in his annual policy address on October 10 entitled "A New Direction for Hong Kong." Specifically, he discussed policy proposals related to universal suffrage, tax relief, education, social entrepreneurship, and relations with the mainland and, with regard to each area, reiterated what his campaign statements promised.¹¹⁸ The fact that Chief Executive Tsang included such references suggests that competitive elections for the Chief Executive could strengthen the accountability of Hong Kong's government to Hong Kong's citizens. If candidates are, indeed, required to clarify their policy platforms and propose policy reforms, the public would have a benchmark after the election by which to measure the Chief Executive's responsiveness and trustworthiness.

Legislative Council Selection

The Legislative Council currently is comprised of 60 members, each of whom serves for a four-year term. The most recent election was in September 2004, and at that time, 30 members of the council were elected through direct elections and 30 members were elected by functional constituencies.¹¹⁹ Several political parties have members represented in the Legislative Council; 25 members are loosely considered "pro-democracy," and 35 members are loosely considered "pro-Beijing."¹²⁰ Pro-democracy parties include the Democratic Party, the Frontier Party, the Civic Party, and the League of Social Democrats. Pro-Beijing parties include the Liberal Party and the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB).

The next election for the Legislative Council occurs in 2008.

The Role of Political Parties in Hong Kong

In meetings with Hong Kong government representatives, the Commissioners were told there is support for increasing the role of political parties in the political process, through devices such as political appointments to various senior executive positions in the HKSAR government. These appointments would expand the political appointee system from one in which only the highest-level cabinet ministers are appointed, to a system in which political appointments also are made for a number of second- and third-tier executive positions now held by career civil servants. Advocates say this would allow the appointees to gain experience in government administration, and that the Chief Executive would be able through this device to broaden the group of government executives who are dedicated to supporting and implementing the Chief Executive's policy platforms. Given that the current election procedures are weighted toward electing a Chief Executive who is favored by Beijing and is favorable to Beijing's policies, the proposed new system, if implemented, likely will produce a group of subordinate executives and managers who favor the Chief Executive's policies and therefore also view Beijing's policies favorably.

While in Hong Kong, the Commission delegation met with representatives of several political parties. Political party membership in Hong Kong is relatively small; of a total HKSAR population nearing seven million people, the DAB, a pro-Beijing party, has the largest membership with 10,000 members.¹²¹ The DAB is attempting to consolidate its membership in Hong Kong and focus on engaging young people. Hong Kong's pro-democratic parties have fewer members: the Democratic Party has 600 members, and the Civic Party—the party affiliation of unsuccessful Chief Executive candidate Alan Leong—has approximately 700 members.¹²² These membership numbers are not reflective of the support party candidates receive in legislative elections.

Public Participation in Politics

Broadly speaking, Hong Kong residents have become more politically active over the past ten years as opportunities for activism have increased, such as through elections and the expansion of political parties.¹²³ In 2003, Hong Kong District Council elections had an aggregate voter turnout of 44.1 percent, or 2,418,078 voters. In 2004, turnout in the Legislative Council elections for representatives of geographical constituencies was 55.6 percent, or 3,207,227 voters. In both elections, turnout was higher than in previous elections.¹²⁴

Political demonstrations occur regularly. In the first six months of 2005, there were 834 public meetings and processions.¹²⁵ On July 1, 2006, tens of thousands of protesters marched through Hong Kong in support of universal suffrage and labor rights.¹²⁶ On June 4, 2007, tens of thousands of protesters gathered in Hong Kong to mourn those who were killed by the People's Liberation Army in the June 4, 1989, massacre in Tiananmen Square in Beijing.¹²⁷ In addition, many protests are conducted by groups that are outlawed in mainland China, such as the Falun Gong.¹²⁸ While

participation appears to have increased, it also appears that Hong Kong residents have shifted their concerns away from political and human rights issues toward social and environmental issues. When the Commission delegation met with Legislative Council members, they remarked that the environment and pollution in Hong Kong—most of which emanates from mainland sources—is the most active political issue in Hong Kong.

Addressing Universal Suffrage in Hong Kong

One of the most politically charged issues in Hong Kong is the topic of universal suffrage. Under the Basic Law, both the Chief Executive and the Legislative Council are to be selected by election. Article 45 states:

The Chief Executive of the Hong Kong Special Administrative Region shall be selected by election or through consultations held locally and be appointed by the Central People's Government.

The method for selecting the Chief Executive shall be specified in the light of the actual situation in the Hong Kong Special Administrative Region and in accordance with the principle of gradual and orderly process. The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures.¹²⁹

With regard to the legislature, Article 68 of the Basic Law states:

The Legislative Council of the Hong Kong Special Administrative Region shall be constituted by election.

The method for forming the Legislative Council shall be specified in the light of the actual situation in the Hong Kong Special Administrative Region and in accordance with the principle of gradual and orderly process. The ultimate aim is the election of all the members of the Legislative Council by universal suffrage.¹³⁰

While the aim of the Basic Law is to institute universal suffrage, the law itself lacks a timeline for accomplishing that aim. In April 2004 the Standing Committee of China's National People's Congress ruled that the election of the Chief Executive in 2007 and the selection of Legislative Council members in 2008 would not be by universal suffrage.¹³¹ The government argued that the Basic Law provides for selecting the Chief Executive and Legislative Council according to the circumstances in Hong Kong, and the Standing Committee determined that Hong Kong would not be ready for universal suffrage at that time.¹³² Although democracy supporters disagreed with this ruling, Chief Executive Tsang concurred through public statements in 2005 and 2006, indicating that Hong Kong would not move toward universal suffrage in the near future.¹³³

However, in Mr. Tsang's election campaign this year, he promised to resolve the issue of universal suffrage before the end of his current term in 2012, and that his first step would be to issue a "Green Paper" detailing proposals for implementing universal suffrage for both the Chief Executive election and the Legislative Council election. Mr. Tsang honored his commitment and issued

the report, prepared by the Constitutional and Mainland Affairs Bureau, in July 2007. According to Mr. Tsang's plan, the Green Paper underwent a period of public consultation that concluded October 10, 2007. The HKSAR government received public submissions and comments throughout this period.

Senior advisors to Mr. Tsang told the Commission's delegation that he will use public polls to determine which plan for moving toward universal suffrage has the greatest support among Hong Kong citizens, and then he will present that plan to the Chinese government for its approval.

Democratic activists have expressed concern that the pro-Beijing forces in Hong Kong will try to manipulate the polls by the way they present the choices to the public. If they succeed, pro-democratic forces would be placed in the difficult position of either accepting an option that offers less than complete or direct universal suffrage as guaranteed in the Basic Law, or appearing obstructionist to political reforms favored by a majority of Hong Kong's citizens.¹³⁴

The Green Paper on Constitutional Development¹³⁵

The paper presents options on both the structure for implementing universal suffrage and the timeline for implementing such a change. The paper states:

Having regard to the constitutional basis and principles of design of Hong Kong's political structure, as well as the concept of 'universal suffrage' as generally understood internationally, the concept of universal suffrage should include the principles of 'universal' and 'equal' suffrage.

However, there is no single electoral system that suits all places, and that one should not seek to impose any particular political model or electoral system on any place. As far as an individual jurisdiction is concerned, while conforming to the general international understanding of universal suffrage, it can also develop its electoral system having regard to the particular needs and aspirations of its people, the uniqueness of its socio-economic situation, and its historical realities.

For the Chief Executive, the paper suggests different options for the size of the Election Committee and for the number of candidates the committee can nominate. After the nomination of candidates, the paper notes that the Chief Executive then can be selected by "one person, one vote." The Green Paper does not suggest any constitutional changes such as removing the State Council from its role in appointing the Chief Executive after his or her election.

For the Legislative Council, the paper presents options including replacing functional constituency seats with direct election and keeping functional constituency seats but changing the method in which members are selected. Additionally, there are options for phasing in universal suffrage elections for Legislative Council members by abolishing the functional constituency seats incrementally.

**The Green Paper on Constitutional Development¹³⁵—
Continued**

Other issues in the paper include whether to implement universal suffrage for both the Chief Executive and the Legislative Council at the same time, or whether to institute universal suffrage incrementally. Also, the paper presents options for allowing universal suffrage in 2012, 2017, or after 2017.

The Hong Kong Human Rights Monitor, a non-governmental organization established in 1995 to promote human rights and democracy, submitted a formal commentary on the Green Paper. It expressed concerns that, while a majority of Hong Kong citizens support universal suffrage in 2012 for both the Chief Executive and the Legislative Council, the PRC government and the HKSAR government would not allow this to occur.¹³⁶ It criticized the Green Paper, stating:

The Green Paper is designed not to facilitate public discussions but to confuse and disinterest the public. Instead of the three integrated options as promised, it only sets out a large number of questions, each with several options, presenting a combination of hundreds of options for the public to consider. It is easy for the public to [lose] focus in such discussion. Obviously, in the light of the majority support for full democracy in the near future, the Government is attempting to use this approach to thin out public support to the numerous different combinations of alternatives to prevent the expression of a clear majority in the public's support for full democracy in the near future.¹³⁷

The submission also argues that the Green Paper “gives no accurate definition on universal suffrage. It is alarming that the Green Paper even includes retaining functional constituencies in certain forms as an option for the ultimate model for universal and equal suffrage. It reflects a lack of understanding of the true concept of universal suffrage.”¹³⁸

Surveys conducted by the Hong Kong Transition Project¹³⁹ found that in May 2007, prior to the release of the Green Paper, 51 percent of respondents “supported” and 25 percent “strongly supported” direct elections for the Chief Executive.¹⁴⁰ The plurality of respondents (44 percent) supported implementing direct elections for the Chief Executive in 2017, and 16 percent favored implementation in 2012.¹⁴¹ With regard to the Legislative Council, nearly three-fourths supported direct elections for council members, while 16 percent opposed them; 31 percent favored implementing direct elections in 2008 (which the National People’s Congress Standing Committee has ruled will not occur), and 29 percent supported direct elections in 2012.¹⁴²

Beijing has not directly commented on the Green Paper, although representatives have made statements indicating the central government’s preferences. For example, Li Guikang, a deputy director of the Central People’s Government Liaison Office, remarked that “recent survey findings that more than half [of] Hong Kong people

found it ‘acceptable’ if universal suffrage for the chief executive and the legislature could not be achieved in 2012 showed the increasingly ‘rational’ views of the city’s people towards constitutional development.”¹⁴³ His remarks did not cite the source of the information, and they were construed by the public as indicating Beijing’s preference to begin political reforms after 2012. Additionally, at the Asia-Pacific Economic Cooperation (APEC) summit in September 2007, China’s President Hu noted in a conversation with Chief Executive Tsang that the Hong Kong government should “focus on developing the economy while political reform should take place gradually.”¹⁴⁴

A wide range of public responses and editorials to the Green Paper have been published in Hong Kong newspapers articulating both “pro-democracy” and “pro-Beijing” positions. Many acknowledge that the formula selected for achieving universal suffrage must be acceptable to Beijing, which holds the power to approve a timetable and method.¹⁴⁵ Hong Kong government representatives in Washington, DC, indicate that the most debated issue pertaining to the election of the Chief Executive is related to the composition of the Election Committee, and the most debated issue pertaining to election of the Legislative Council members is whether or not to abolish functional constituencies. In general, the Hong Kong government is stressing consensus among the public as a prerequisite for introducing universal suffrage.¹⁴⁶ If no obvious consensus can be achieved, it has been suggested that the issue could be revisited with another public consultation that offers fewer options and simplified choices in an attempt to reach a consensus.¹⁴⁷

Other Significant Issues in Hong Kong

Economic Growth and Competitiveness

While in Hong Kong, the Commission delegation learned that Hong Kong’s economy has recovered from the turmoil of the Asian financial crisis and the economic fallout from the Severe Acute Respiratory Syndrome (SARS) epidemic. Its economy does not appear to have been significantly affected by protests over insufficiently rapid progress toward democratization since the PRC regained political control of Hong Kong in 1997. Importantly, the PRC has not interfered with economic activities in Hong Kong or the relationship of those activities to the global economy, and it is still favored by businesses from all parts of the globe as a center for commerce in Asia, particularly commerce involving the PRC. This has enabled it to remain a key financial center for the Asia-Pacific region. Its gross domestic product (GDP) in 2006 (US\$188.8 billion) increased 6.8 percent over the previous year.¹⁴⁸ Its per capita gross national income (GNI) in 2006 totaled US\$28,460 compared to US\$2,010 in mainland China.¹⁴⁹

In 2003, Hong Kong and China signed the Closer Economic Partnership Agreement (CEPA), a free trade agreement covering trade in goods and services and investment facilitation.¹⁵⁰ The economic integration between Hong Kong and mainland China that followed this agreement has stimulated economic growth, promoted tourism by mainland travelers, and cemented Hong Kong’s role as a facilitator of investments into and out from China.¹⁵¹ Hong Kong

has become one of the world's leaders in initial public offerings (IPOs), and serves as the main offshore listing venue for mainland companies.¹⁵²

According to U.S. government officials in Hong Kong, Hong Kong is losing its status as the leading regional container port to mainland ports. Increasingly, companies located in southern China are shifting their cargo traffic to mainland ports to take advantage of lower transportation costs, cheaper services, and improvements in mainland coastal infrastructure.¹⁵³ Even though Hong Kong's port continues to grow, the ports in Shenzhen and Shanghai are growing at a faster rate, and absorbing new business in the region. This may have unfortunate effects on the United States, because Hong Kong's port has been among the most cooperative participants in the Container Security Initiative (CSI), and likely will be one of the first trial ports for the Secure Freight Initiative to screen shipping containers when it is implemented next year.

The International Monetary Fund notes in its assessment of Hong Kong's economy that price competitiveness has rebounded and is associated with rising economic efficiency from improved labor productivity. However, the growth of Hong Kong's economy is challenged by non-price competitiveness issues related to Hong Kong's aging population, shortages of skilled labor, and concern about rising pollution.¹⁵⁴ As mainland China continues to undergo economic reforms and market liberalization, a future challenge for Hong Kong will be to maintain its role as a broker between mainland businesses and the international business community.¹⁵⁵ In facing this challenge, it has several significant advantages, notably including its reliance on rule of law, buttressed by its independent judiciary, strong record of law enforcement, and transparency.

In October, the government reported that Hong Kong's unemployment rate fell to 4.1 percent, the lowest rate in more than nine years. However, the Commission delegation was told that Hong Kong's income gap is rising; income increases are not always commensurate with employment increases. A recent Oxfam Report found that in 2006, 13 percent of the workforce lived in poverty, earning less than HK\$5,000 a month—half of HKSAR's median income.¹⁵⁶

Energy and the Environment

During the Commission delegation's trip to Hong Kong, delegation members learned that the environment is one of the most potent political issues in Hong Kong, as Hong Kong residents struggle to deal not only with locally-produced air and water pollution, but also with pollution generated in mainland China. In China, enforcement of environmental regulations at the local level remains a major problem, and this has a negative public health impact on both the people in those communities and those who live in other locations affected by the pollution. In interviews with the Congressional Research Service, the American Chamber of Commerce in Hong Kong indicated that air pollution, much of which emanates from China, is a major concern of businesses in Hong Kong,¹⁵⁷ and this concern could affect Hong Kong's attractiveness as an investment location and hub for regional offices. China's Guangdong

Province, adjacent to the HKSAR, is the first province in China to release air quality data, and Hong Kong has established some cooperative efforts with Guangdong to address air and water quality problems.

Another air quality problem unique to this area, identified by Ms. Christine Loh of Hong Kong's Civic Exchange, is the pollution created by ships utilizing the container ports. These ships' emissions remain localized at ground level. Dr. Ng Chonam of the University of Hong Kong also noted that water has become a major issue in all cities in China, including Guangzhou and Hong Kong. During the dry season in Guangzhou, the outflow of the Pearl River diminishes to the point that sea water surges into the delta, harming the water supply and surrounding environment. Hong Kong now imports water from Guangdong province, so this is of concern to Hong Kong as well.

**Pollution Prevention and Energy Efficiency (P2E2)
—Public Facilitation, Private Investment**

Rapid urbanization in the Pearl River Delta (the area of the Chinese mainland adjacent to Hong Kong, including Guangzhou), increased power generation, and an alarming rise in the number of vehicles in the area is causing a dramatic increase in air pollution that has worsened air quality in Hong Kong. In June 2006, the U.S. Consul General in Hong Kong, James Cunningham, stated, "Hong Kong is playing a vital role in the development of mainland China, whose rapid industrialization is lifting millions out of poverty. But in the short space of only a decade, the increased prosperity of the Pearl River Delta has produced the unintended consequence of an air pollution challenge of alarming proportions."¹⁵⁸ Many of the factories and industries in the Pearl River Delta are owned or financed by Hong Kong businesses, many of which "support the global business strategies of U.S. firms."¹⁵⁹ As a result, Hong Kong and the United States have a responsibility to promote cleaner production of energy in Guangzhou, while at the same time encouraging corporate responsibility among businesses that invest in China.

The Pollution Prevention and Energy Efficiency (P2E2) Program was designed to address this problem and was introduced in May 2005 by the commercial staff of the U.S. Consulate in Hong Kong to facilitate Hong Kong-based investment in pollution prevention and energy efficient technologies for industries in the Pearl River Delta. It does not require upfront capital from Chinese industries, and companies pay back investment in cleaner technologies through cost savings on energy. Loan guarantees are provided by the Asian Development Bank (ADB) and credits from the U.S. Export-Import Bank.¹⁶⁰

There are four main steps to the program:¹⁶¹

**Pollution Prevention and Energy Efficiency (P2E2)
—Public Facilitation, Private Investment—Continued**

- A Hong Kong-based environment and energy service company conducts an energy and environmental impact study for a mainland factory, power plant, or real estate development and advises on how to reduce the energy demand and improve the environmental impact through an upgrade in technology.
- The Hong Kong service company secures a loan from a Hong Kong bank to lease or purchase equipment necessary for the upgrade. “The bank would make this loan based on a performance contract and on mainland commercial credit risk, which would be partially alleviated by loan guarantees from ADB or the [U.S. Export-Import] Bank.”¹⁶²
- The loan is repaid with cost savings at the Chinese factory or plant through reduced energy consumption and raw material needs. Cost savings can include reductions of raw materials, water, fuel, waste treatment, and maintenance.¹⁶³
- To monitor the actual cost savings achieved, an independent technical auditor measures and verifies the cost savings in the Chinese factory or plant.

Potential energy savings due to increased energy efficiency can equal up to 50 percent. For example, a medium-sized steel plant in Guangdong consumes 800 gigawatt-hours of electricity costing \$73 million per year. The application of energy efficient technology could produce \$33 million in cost savings, or savings of 45 percent of the annual electricity costs.¹⁶⁴ Additionally, when these loans are applied to the power generation sector in China, the P2E2 program generates emissions credits under the Clean Development Mechanism of the Kyoto Protocol.

Currently, around twenty Hong Kong-based energy and environment service companies are active in this program, seeking mainland partners for assessments and investments. These companies are active in the aluminum, cement, electronics, food processing, iron and steel, power generation, real estate, and textile sectors. The U.S. Commercial Service predicts that this program will expand when the ADB implements US\$1 billion in loan guarantees and loans under its Energy Efficiency Initiative in September 2007, and as the International Finance Corporation fulfills its commitment for US\$300 million in P2E2 support.¹⁶⁵

Freedom of the Press

The nature of the Hong Kong press has changed in the past ten years. Dr. Francis L.F. Lee, professor at the City University of Hong Kong, and Dr. Angel M. Y. Lin, professor at the Chinese University of Hong Kong, write that since 1997 newspapers critical of the Chinese government have moved toward a less critical, more centrist stance, and the “range of ideological viewpoints propounded by the media has been narrowed down.”¹⁶⁶ While Chinese

officials have not openly interfered in the press, journalists and editors have responded to subtle pressures to avoid controversial news by engaging in self-censorship. The 2007 Hong Kong Policy Act Report states that in Hong Kong “a robust dialogue among all concerned parties continues [that] is covered in a largely unfettered press.” However, it goes on, “[a] wide and growing perception exists . . . that much of the Hong Kong press engages in a degree of self-censorship regarding issues sensitive to the PRC central government.”¹⁶⁷

Self-censorship is defined as “a set of editorial actions ranging from omission, dilution, distortion, change of emphasis, to choice of rhetorical devices by journalists, their organizations, and even the entire media community in anticipation of currying reward and avoiding punishment from the power structure.”¹⁶⁸ Self-censorship in Hong Kong occurs by minimizing negative news, especially related to mainland China, and limiting reports that may damage a publication’s economic interests, such as its advertising partners.¹⁶⁹ Additionally, criticisms of the Chinese government are often printed as editorials from individuals outside the news organization, thus reducing the risk to professional journalists.¹⁷⁰ Even among these criticisms, editorials often avoid criticizing Chinese leaders personally.¹⁷¹ The Hong Kong Journalists Association 2007 Annual Report identifies several different types of pressures exerted on journalists that factor into the decision to self-censor. These include political pressure, restrictions on the ability to cover news in the PRC, advertising boycotts, and editorial pressure from within the media organization.¹⁷²

In addition, the arrest and prosecution of journalists is a powerful motivation to self-censor investigations and reporting. In November 2006, a Beijing court upheld a conviction of Hong Kong journalist Ching Cheong, who worked for the Singapore-based *Straits Times*, for selling state secrets to Taiwan.¹⁷³ Mr. Cheong was arrested in 2005 while seeking papers linked to Secretary Zhao Zhiyang,¹⁷⁴ who opposed the Tiananmen massacre in 1989.¹⁷⁵ Mr. Cheong is serving a five-year sentence, and the Hong Kong Journalists Association has been calling for him to be released on medical grounds following reports that his health is failing.¹⁷⁶

Conclusions

- The United States and other democracies, especially in Asia, have a strong interest in the development of democratic freedoms in Hong Kong. Progress toward universal suffrage not only is guaranteed by the Basic Law, but is an important indicator of Beijing’s willingness to fully implement its “one country, two systems” principle. The delay in implementing universal suffrage, and the possibility that the definition of universal suffrage will be altered to include options other than “one person, one vote,” lead to significant concerns that Hong Kong will not achieve the universal suffrage guaranteed in its Basic Law.
- The March 2007 elections for Chief Executive set an important precedent for holding public debates, articulation by candidates of policy positions and goals, and the desire of the people of Hong Kong to have multiple candidates.

- The linkages between China's energy consumption and the pollution affecting Hong Kong provide both incentives and opportunities for increasing investments in clean energy production on the mainland. This can provide an opening for American firms offering clean energy technologies.
- Maintaining an independent, free press in Hong Kong and preventing the causes of self-censorship are necessary for democracy in Hong Kong.